

PHILIPPINES ECONOMIC & FINANCIAL WRAP-UP

AUGUST 11 - 17, 2001

----- Summary -----

The peso strengthened further to close 1.39% up week-on-week, which forex traders attributed mainly to further profit-taking following last week's currency appreciation. Although stock market trading volumes remain thin, the peso's rebound provided the equities market with a breather from consecutive week-on-week declines. Treasury bill rates on the other hand, moved up as banks adjusted to the latest increase in reserve requirements. We also report that the commercial banking system's ratio of non-performing loans inched up to a new high (16.96%) in June. On a positive note, Urban Bank (a commercial bank placed under receivership in April 2000) has been turned over to its new owner for rehabilitation. Meanwhile the Philippine Stock Exchange completed the initial phase of its demutualization by converting to a stock corporation. End Summary.

These weekly reviews are available on the Embassy's web site (<http://usembassy.state.gov/manila>). We provide a longer and more detailed review of the Philippine economy in our June 2001 Economic Outlook, which is also available on our web site.

----- Contents -----

Forex Report
Credit Market Report
Stock Market Report
Banks' Non-Performing Loan Ratio at New High
PDIC Turns Over Urban Bank to New Owner
Philippine Stock Exchange Converts to Stock Corporation

FOREX REPORT

The peso continued to rebound during the August 13-17 trading week. By mid-week, the peso had strengthened above the P51/US\$ mark for the first time in over two months. However, the late week foreign exchange demand slightly pulled down the peso to a closing level of P51.14/US\$ on August 17, up 1.39% week-on-week. Foreign exchange traders attributed the peso's appreciation to continued profit-taking on foreign currency holdings following the peso's dramatic appreciation the previous week. They added that firmer regional currencies provided the peso an additional boost. Following two weeks of consolidation and repositioning, foreign exchanges traders generally expect the peso to move in a tighter band around the P51/US\$ mark in the coming week.

Exchange Rate Tables

Date	Weighted Average (Pesos/US\$)	Closing (Pesos/US\$)	Volume (Million US\$)
	-----	-----	-----
JUL 09	52.863	52.835	71.6
10	52.910	52.950	68.0
11	53.023	53.065	76.7
12	53.246	53.080	119.0
13	53.186	53.170	46.0
 JUL 16	 53.503	 53.710	 50.4
17	53.896	53.950	49.5
18	53.928	53.700	168.5
19	53.316	53.200	122.3
20	53.210	53.150	154.8
 JUL 23	 53.387	 53.400	 110.6
24	53.552	53.550	36.2
25	53.587	53.600	96.7
26	53.538	53.420	101.6
27	53.389	53.450	76.0
 JUL 30	 53.562	 53.370	 106.7
31	53.526	53.540	67.7
AUG 01	53.744	53.770	94.4
02	53.667	53.645	67.0
03	53.562	53.450	92.5

AUG 06	53.282	53.220	80.5
07	53.293	53.320	82.1
08	53.303	53.150	104.5
09	53.085	53.000	90.7
10	52.322	51.850	151.7
AUG 13	51.278	51.210	124.0
14	51.183	51.175	94.5
15	50.831	50.950	136.5
16	51.101	50.950	129.0
17	51.193	51.140	60.0

Source: Bankers Association of the Philippines

CREDIT MARKET REPORT

Unlike the previous two sessions on July 30 and August 6, the government's August 13 Treasury bill auction was oversubscribed. The government received P7.4 billion and tenders, fully awarding the P4 billion worth of T-bills scheduled for sale -- after rejecting most bids on July 30 and all bids on August 6. The rates for the 91-day bills averaged 9.652%, up 43.7 basis points from the 9.215% average when the bills were last awarded on July 30. Accepted bid rates averaged 11.525% for the 182-day paper and 12.557% for the 364-day bills -- up 66.4 and 56.9 basis points, respectively, from when they were last sold on July 23. Treasury officials said that the government's auction committee decided to make a full award this time around because the strong turnout suggested that the rates were more reflective of market sentiment.

The higher bid rates on August 13 were generally attributed to the Bangko Sentral ng Pilipinas's (BSP, the central bank) latest 2 percentage point increase in liquidity reserve requirements (effective August 10). Treasury officials told the Embassy that T-bill rates were expected to move sideways during next week's auction and that the government stood ready to reject "unreasonable bids". They commented that the peso has strengthened and that banks remain reasonably liquid despite monetary tightening measures, given lethargic

loan growth and limited, risk-free investment alternatives.

Domestic Interest Rates (in percent)

Treasury Bills

Auction Date	91 days	182 days	364 days
-----	-----	-----	-----
JUN 18	8.653	9.780	10.965
JUN 25	8.728	no sales	11.092
JUL 02	8.770	9.942	11.221
JUL 09	8.849	10.172	11.419
JUL 16	8.958	10.489	11.768
JUL 23	8.935	10.861	11.988
JUL 30	9.215	no sales	no sales
AUG 06	no sales	no sales	no sales
AUG 13	9.652	11.525	12.557

Source: Bureau of the Treasury

Prime Lending Rates of 14 Expanded Commercial Banks

Date of Survey	Average	Range
-----	-----	-----
JUN 28	12.6328	10.00 - 13.728
JUL 05	12.5638	10.00 - 13.770
JUL 12	12.5837	10.00 - 13.849
JUL 19	12.6249	10.00 - 13.958
AUG 02	12.8134	10.50 - 14.215
AUG 09	12.8318	10.50 - 14.215
AUG 16	13.0594	11.00 - 14.652

Sources: Bangko Sentral ng Pilipinas; Press reports

STOCK MARKET REPORT

The peso's rebound gave the stock market a reprieve from nine consecutive week-on-week declines. By mid-week, the Philippine Stock Price Index (Phisix) had at least moved back up to over the 1300 mark. The Phisix ended the week

at 1306.17 on August 17, up 0.9% from the previous week's 1294.23 closing level.

Philippine Stock Exchange Index (PHISIX) and
Value of Shares Traded

Date	PHISIX Close	Value (Million pesos)
----	-----	-----
JUL 09	1405.39	346
10	1397.66	447
11	1390.10	284
12	1399.42	289
13	1396.30	208
JUL 16	1397.61	377
17	1384.01	798
18	1382.28	325
19	1381.87	625
20	1376.36	330
JUL 23	1374.83	516
24	1369.02	441
25	1366.01	472
26	1362.58	368
27	1363.34	584
JUL 30	1350.95	323
31	1362.89	406
AUG 01	1333.71	373
02	1341.56	472
03	1328.17	338
AUG 06	1333.05	382
07	1332.03	688
08	1308.41	1,028
09	1278.40	1,059
10	1294.23	481
AUG 13	1303.65	337
14	1303.06	271
15	1325.16	398
16	1316.22	326
17	1306.17	488

Source: Philippine Stock Exchange

BANKS' NON-PERFORMING LOAN RATIO AT NEW HIGH

According to the latest BSP estimates, the commercial banking system's ratio of non-performing loans (NPLs) inched up from 16.81% in May to 16.96% in June (a new high). The nominal level of NPLs increased by 0.8% (P2.1 billion) month-on-month while loan growth (including interbank credits) declined by 0.1% (P879 million). Aggregate loans were up 4.7% year-on-year, including interbank credits; and by 4.1% from the June 2000 level, excluding interbank transactions .

Restructured loans (without which NPL ratios would be higher) increased by 4.6% (P4.7 billion) from the May 2001 level. As of end-June, restructured accounts equaled 6.7% of commercial banks' outstanding loans -- up from 6.4% the month before, as well as from June 2000's 5.5% ratio. Foreclosed assets -- up by 5.3% (P7.3 billion) month-on-month and by 28.9% year-on-year -- equaled 4.8% of commercial banking system assets as of end-June (up from May 2001's 4.6% and June 2000's 4.1% ratios). Non-performing assets (NPAs, the sum of NPLs and foreclosed assets) expanded by 2.3% (P9.4 billion) month-on-month and 23.8% year-on-year to equal 13.6% of commercial banking resources (compared with the year-ago ratio of 12.2%). Banks beefed up loan loss reserves by 2.7% (P3.2 billion) during the month, pushing up the commercial banking systems' coverage ratio (i.e., the ratio of loan loss reserves to NPLs) to 45% (from May's 44.2% figure).

Bankers expressed doubt that NPL ratios have peaked, noting that businesses are struggling with both weaker export and domestic markets. Loan growth also remains lethargic. Banks -- saddled with NPLs and foreclosed properties -- remain cautious lenders, while weaker economic growth prospects this year spell conservative credit demand.

COMMERCIAL BANKS - SELECTED INDICATORS

	2 0 0 1		2000
	June	May	June
	----	-----	----
In Billion Pesos			

Total Loan Portfolio (TLP) a/	1,575.2	1,576.1	1,505.1
Non-Performing Loans (NPL)	267.1	265.0	220.4
Loan Loss Reserves (LLR)	120.2	117.0	101.2
Restructured Loans (RL)	105.7	101.0	82.2
Foreclosed Assets (FA) b/	144.8	137.5	112.3
Non-Performing Assets (NPA) c/	411.9	402.4	332.7
Total Assets (TA)	3,037.8	2,999.5	2,739.4
Selected Ratios (%)			

NPL/TLP	16.96	16.81	14.65
LLR/NPL	45.01	44.16	45.91
LLR/NPA	30.95	30.30	31.26
LLR/TLP	7.63	7.42	6.72
RL/TLP	6.71	6.41	5.46
FA/TA	4.77	4.58	4.10
NPA/TA	13.56	13.42	12.15

a/ Includes inter-bank credits

b/ Gross of allowance for probable losses

c/ Sum of NPLs and foreclosed assets

Source: Bangko Sentral ng Pilipinas

PDIC TURNS OVER URBAN BANK TO NEW OWNER

On August 8, the Philippine Deposit Insurance Corp. (PDIC) -- through its chairman, Secretary of Finance Jose Isidro "Lito" Camacho -- turned over Urban Bank, Inc. to its new owner Export and Industry Bank (Exportbank). Secretary Camacho also turned over a symbolic check representing P1.5 billion of UBI funds held in trust by the PDIC. On that same occasion, the receiver of UBI's investment house Urbancorp Investment, Inc. (UII) turned over an order from the Securities and Exchange Commission (SEC) approving the rehabilitation program for UII and the release of P500 million UII funds held in trust.

Urban Bank was promptly closed and placed under PDIC receivership in April 2000 after suffering from heavy withdrawals linked to its investment house's financial problems.

Secretary Camacho hailed the reopening of UBI via a three-way merger with Exportbank as a "milestone" for the banking system as it represented first ever closed bank to be rehabilitated. Exportbank, together with UBI's and UII's association of creditors and depositors, submitted the lone rehab proposal for Urban Bank last April (after an earlier proponent -- Bank of Commerce -- backed out of a practically done deal at the last minute). To assist in UBI's rehabilitation, PDIC officials said that a P200 million secured loan would be made available on the first days of operations. PDIC has also committed to make available, as needed, a P1.5 billion standby facility beginning the second year of operations, in case of unexpected heavy withdrawals and other cash flow problems triggered by exogenous circumstances.

PHILIPPINE STOCK EXCHANGE CONVERTS TO STOCK CORPORATION

On August 8, the deadline set under the provisions of the July 2000 Securities Regulation Code (SRC), the Philippine Stock Exchange (PSE) formally converted from a non-stock, mutual company fully controlled by its stockbroker members to a stock corporation. As a stock company, PSE has an authorized capital of P36 million, with P9.2 million subscribed and paid-up (representing 50,000 shares each for its current 184 member-brokers). One trading right was also conferred to each member-broker in recognition of their ownership seats in the exchange. The PSE's conversion to a stock entity separates ownership of the exchange from access to the bourse's trading facilities (i.e., one need not be an owner of the exchange to trade in equities). Given prevailing market conditions and the thin trading volumes being shared by current players, the PSE has imposed an indefinite moratorium on the issuance of new trading rights.

The PSE's conversion to a stock company represents only the initial phase of the demutualization process.

Currently fully owned by stock brokers, the PSE must diversify its ownership base according to an SRC provision which limits ownership of any one industry group to 20%. This reform measure was especially intended to address allegations that the PSE operated as an "old boys' club" incapable of policing its own ranks (a point highlighted by the BW Resources stock market scandal). The current challenge now lies in strengthening structures and profit centers in preparation for the PSE's envisioned public listing. SEC officials told the Embassy that the PSE and SEC have yet to agree on a time table for the bourse's listing but indicated that the parties were discussing a two-year time frame.